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SUBJECT: CERA Energy Conference Highlights Caspian Gas Transient and  
Clean Energy

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SENSITIVE BUT UNCLASSIFIED

11. (SBU) Summary. Over 250 government and industry  
representatives attended the tenth annual "East Meets West"  
Executive Conference in Istanbul, June 26-27, for two full days of  
presentations and discussions of energy security, resource access,  
oil and gas transit, and the impact of climate change on energy  
markets. The Presidents of the Republics of Ukraine, Georgia,  
Azerbaijan, and Turkey opened the conference with strong calls for  
regional energy cooperation and freedom from "monopolistic  
pressures" for energy transit. Turkey's Energy Minister Hilmi Guler  
announced that Azeri gas will flow to Turkey within a month,  
Turkey's gas interconnector to Greece will open on August 10, and a  
"big potential" exists for wind and hydroelectric power.

12. (SBU) The OPEC President described the dual challenges ahead to  
increase oil production by 6.9 million bbl/d and to attract over  
\$130 billion investment to achieve this expansion. Iraqi Energy  
Advisor Thamir Ghadhbani clearly and proudly described the new  
hydrocarbon law. For the first time at CERA, nearly half of the  
sessions focused on clean energy technologies, with CERA Chairman  
Daniel Yergin concluding, "The carbon tipping point has been  
reached." The weekend's news of the "South Stream" gas pipeline  
project, which was jointly announced by Gazprom and Italian oil firm  
Eni, gave cause for much discussion on regional transit strategy.  
Nevertheless, except as a reminder of Gazprom's resource clout  
allowing it to guarantee supply for new pipeline projects, no one  
suggested the announcement altered the value of alternate supply  
routes like the Nabucco pipeline. End Summary.

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Four Presidents Call for Energy Cooperation  
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13. (U) After a rousing performance by the Tekfen Black Sea  
Philharmonic Orchestra with musicians from 23 Caspian and  
Mediterranean countries, CERA Chairman Yergin welcomed participants  
and noted the historic tenth anniversary of the Istanbul Conference.  
Ten years ago, the late President Heydar Aliyev of Azerbaijan  
addressed the first CERA "East Meets West" conference with his calls  
to overcome obstacles and complete the Baku-Tbilisi-Ceyhan (BTC) oil  
pipeline. Yergin then introduced opening speakers including  
Ukrainian President Victor Yushchenko, Georgian President Mikhail  
Saakashvilli, Azeri President Ilham Aliyev, and Turkey's President

Ahmet Necdet Sezer. The four presidents called for regional energy cooperation, open and transparent oil markets, multiple pipelines, uniform and just rules of fairness, and freedom from monopolistic energy pressures.

¶4. (U) While the four presidents shared common themes, each also made individual appeals.

-- Ukraine's Yushchenko called for Russia to ratify the EU Energy Charter, pledged Ukraine's "guarantee" as a reliable transit country, called for the Odessa-Brody pipeline to be filled with Caspian Oil to Poland, and explained the opportunity for new nuclear power cooperation in Ukraine under the "strictest requirements" for safety.

-- Georgia's Saakashvilli explained, "We are all interlinked." He thanked Azerbaijan for "coming to the rescue" last winter and noted this "was more than friendly" being also in Azeri strategic self-interest. Saakashvilli also thanked Europe, and especially Poland, for their support aimed at reducing energy dependence on Russia.

-- President Ilham Aliyev explained, "Azerbaijan is much different today than ten years ago." Aliyev noted that "no country is more reliable" than Azerbaijan as an energy supplier; he warned of a difficult winter ahead while also pledging Azeri support for the energy security of its neighbors; he boasted of increasing oil and gas production and of the fastest growing economy of the world; he acknowledged the UN Public Service Award for oil revenue transparency was given on June 26 to the State Oil Fund of Azerbaijan (SOFAZ); and he promised Shah Deniz gas will be delivered to Europe.

-- Turkey's President Sezer explained that achieving global energy security and preventing "undeniable" global warming are problems that can only be solved through international cooperation. Sezer

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stated, "Energy supply diversification is key." He defined diversification as: the BTC pipeline, the soon-to-be-operational Baku-Tbilisi-Erzurum (BTE) gas pipeline, the interconnector to Greece and then to Italy, the need to start Nabucco, trans-Caspian flow of Kazakh oil and Turkman gas, the repair and expansion of Iraqi transportation after "the legal framework is in place to insure oil wealth helps all Iraqi people," and the attractiveness of the Samsun-Ceyhan bypass to avoid environmental accidents in the Aegean Sea.

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World and Regional Energy Leaders on Stage  
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¶5. (U) CERA keynote and plenary speakers included several world and regional energy leaders. Highlights included:

-- Turkey's Minister of Energy and Natural Resources Hilimi Guler presented Turkey's vision of pipelines and announced that Azeri gas will flow to Turkey within a month, Turkey's gas interconnector to Greece will open on August 10, oil and gas transit from Iraqi when the hydrocarbon law has been approved, and Samsun-Ceyhan will be an vital bypass. Guler called his recent visit to Turkmenistan "promising" and emphasized the importance of environmental safety. Concerning climate change, a "big potential" exists for wind and for as many as 970 hydroelectric power projects.

-- OPEC President and UAE Energy Minister Mohamed bin Dhaen Al Hamili described the importance of technology advances upstream, for new resources, and downstream, for environmental reasons. OPEC "welcomes the development of new energy sources and welcomes improvements to end-use efficiency." But Al Hamili also gave warning that policies for new energy technology should not cause demand uncertainty that may delay the "large investments" needed to expand oil production nor burden economic growth of developing nations.

-- Thamir Ghadhbani, Energy Advisor to Iraqi PM al-Maliki, clearly

described the pending hydrocarbon law using a detailed flow chart showing municipal and central government responsibilities, the use of the "Future Fund" for oil revenue management, and Iraqi desire to cooperate with international oil companies and bring needed investment for additional production.

-- Lin Zhenya, President, State Grid Corporation of China, spoke of strategic planning for electricity. The State Grid Corporation is China's largest company and the largest utility in the world. Zhenya described the huge challenge facing China's power sector that will likely grow from 650 GW today to 1,100 GW installed capacity by 2010. While most power will be from coal-fired plants, Zhenya spoke of China's desire for sustainable development, enhanced efficiency, and plans to construct an "electricity super highway" (an ultra-high-voltage transmission grid) that will bring hydroelectric power from the west and also power from distant coal and nuclear plants to eastern cities.

-- Stefan Judisch, CEO of RWE Gas Midstream, spoke of changes in the gas business due to increasing imports and contract complexity. He announced his company's interest in securing Caspian gas for Europe, and suggested that compressed natural gas (CNG) tankers may be the most promising trans-Caspian gas route because of Iranian demarcation objections to a pipeline.

-- Ann Pickard, Shell's Regional Vice-President for Africa, began her presentation noting the three "critical discontinuities" described in Shell's recently released Global Energy Scenarios to 2025: links between energy consumption and economic growth, deepening energy security and supply concerns, and the emergence of the carbon marketplace. Pickard then explained that Nigeria will soon overtake Norway as a hydrocarbon exporter and that deep water wells and LNG are keys to expansion. West Africa faces the challenge of meeting its own development and security needs while also honoring its supply commitments.

-- Fatih Birol, Chief Economist, IEA, discussed "uncertainties in the oil markets" caused by four challenges: rapid economic growth in China and India, the declining role of the international oil company (IOC), inaccessible oil field data, and price inelasticity in major oil consuming nations.

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-- Andris Piebalgs, Energy Commissioner, European Commission, explained that European energy is "much more complicated than pipelines and supplies." In addition to supply security, EU energy policy will address sustainability and "competitive" energy technology initiatives to address climate change. Piebalgs said, "Europe must speak with one voice" in its external energy relationships. He concluded by noting EU's emphasis on climate change issues and stating, "All paths forward are needed," including decarbonization, hydrogenation, zero carbon energy, and demand management.

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Energy and Climate Change: Carbon Tipping Point Crossed  
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16. (U) The impact of climate change on energy policy and the development of technology to reduce greenhouse gas emission was a second theme of CERA Istanbul. Speakers from industry, finance, and academia addressed the development of renewable energy like solar and wind, prospects for future deployment, renewable energy financing, and carbon trading. Featured speakers included Julian Mylchreest, Head, Citigroup's Emerging Markets who emphasized the necessity of financial incentives for wind and solar deployment, Martin Berkenkamp, GE's Marketing Director for Renewables who spoke of today's improved wind technology and the potential for continued wind power growth, Duygu Erten, Adjunct Professor at Koc University, and President of a Turkish consulting firm that brings efficiency technology to buildings, and Erol Demirer of whose firm has installed two wind farms in Turkey. Dr. R. K. Pachauri, Chairman of the Intergovernmental Panel on Climate Change (IPCC) described the links between carbon dioxide emission and climate change. Jefferson Science Fellow and Columbia University Professor of Applied Physics,

Michael Maue, illustrated how international partnerships, like the Asian Pacific Partnership for Clean Energy Development, can aid the deployment of clean energy technology, showed the potential for breakthroughs stemming from basic research in biosciences, nanotechnology, and fusion energy, and explained that "the race to clean energy is a marathon not a sprint". The latter point was re-emphasized by Daniel Yergin during his closing remarks when he declared energy to be at the "carbon tipping point" but the transformation to carbon-neutral energy will be long and gradual.

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Eurasian Transportation Forum: Caspian Energy from a CERA Viewpoint  
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¶7. (SBU) In contrast to the policy presentations made during the CERA Istanbul conference, the Eurasian Transportation Forum on June 25 was technically focused. CERA'S Russian, Eurasian, and Caspian Energy experts presented their views on Bosphorus bypass issues, Caspian oil exports, Russian gas development, and Caspian gas transit to Europe. The Transportation Forum was a closed meeting for over fifty CERA clients and included executives from Gazprombank, Lukoil, Transneft, TNK-BP, Agip, PetroKazakhstan, Hellenic Petroleum, Rompetrol Group, TPAO, and the major IOCs.

¶8. (U) CERA expects Russian gas production to continue to increase, supplied from the smaller gas and condensate fields in the Nadym-Pur-Taz (NPT) region and produced from "independent" gas producers and oil companies. CERA also expects Gazprom to "turn its full attention" to the new Yamal gas fields and to the costly construction of its five, high-pressure pipes capable of moving 300 bcm westward. CERA's presentation gave little reason to doubt Russian gas could supply Europe's growing demand that may require an additional 200 bcm by 2020.

¶9. (U) CERA's presentation of Caspian gas transit noted the region has now returned to Soviet-era gas production levels (more than 160 bcm) and predicts additional production of at least 60 bcm by 2020. However, CERA suggests that growing regional gas consumption, including re-injection needs for Kazakh oil fields and Georgia's desire to sever gas ties to Russia, may limit gas exports.

¶10. (U) CERA also provided commentary on the "changing prospects" for Caspian gas transit to Europe. CERA publicly and privately acknowledged the importance of supply diversity and of Caspian gas through Turkey to Greece and Italy. However, more important to CERA's Russia and Eurasian group is how expanding Russian gas volumes will flow to Europe. The weekend's joint announcement by Gazprom and Italian oil firm Eni to begin a feasibility study for

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the proposed "South Stream" gas pipeline project gave a sense of urgency to Turkey's gas transit options. The South Stream Pipeline would extend from Beregovaya, Russia and under the Black Sea to Bulgaria. If built, South Stream would provide the Balkans a direct source of Russian gas without passing through Turkey. CERA Chairman Yergin and Vice-President Daniel Hobbs viewed South Stream as "simply another project" and stressed the importance of multiple routes and sources. Hobbs said, "Turkey will not be excluded from the energy race, and the Nabucco pipeline does not seem to be threatened" by the South Stream announcement. In private discussions, CERA analysts contrasted Russia's "heat" with Caspian "warmth" and noted South Stream's supply "guarantee" by Gazprom gives the project at least some degree of significance in spite of its formidable technical obstacles.

¶11. (U) Comment. The tenth annual CERA "East Meets West" conference contained a historic call for regional cooperation from the Presidents of Turkey, Azerbaijan, Georgia, and Ukraine. The presidential statements emphasized neighbor-helping-neighbor and transparent open markets to relieve Russian monopolistic pressures in energy supply. The conference concluded the "carbon tipping point" has arrived with the growing importance of efficiency and renewable energy. However, near-term concerns over oil and gas supply security seemed more pressing than longer-term goals to deploy carbon-neutral technology. The South Stream pipeline announcement, and Russian President Putin's participation at the

Black Sea Economic Cooperation (BSEC) meeting just days before in Istanbul, gave Russia a "presence" at the meeting that made the absence of presentations by high-level U.S. officials from Washington more noticeable. End Comment.

¶12. (U) Attending the CERA Istanbul conference were Ambassador to Turkey Ross Wilson, Ambassador to Azerbaijan Anne Derse, and Jefferson Science Fellow Michael Mauel, who drafted this report. Wilson